



Public Disclosure

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Community Reinvestment Act Performance Evaluation

**The National Bank of Fredericksburg
Charter No. 1582**

**2403 Fall Hill Avenue
Fredericksburg, Virginia 22401**

Office of the Comptroller of the Currency

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NOTE:

This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The National Bank of Fredericksburg** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of **April 28, 1997**. The agency evaluates performance in each assessment area, as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated Satisfactory.

The following table indicates the performance level of **The National Bank of Fredericksburg** with respect to the lending, investment, and service tests.

Performance Levels	The National Bank of Fredericksburg Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

The National Bank of Fredericksburg (NBF) is a \$250MM institution located in Fredericksburg, Virginia. In 1994, it became a wholly-owned subsidiary of Mercantile Bankshares, a \$6.6 billion bank holding company based in Baltimore, Maryland. Mercantile is affiliated with twenty-one banks and one mortgage company located throughout Maryland, Virginia, and Delaware.

The National Bank of Fredericksburg operates eight branch offices and eight automated teller machines throughout the City of Fredericksburg and Stafford and Spotsylvania Counties in Virginia. NBF offers a wide variety of products and services, including various consumer, residential real estate, and commercial loan products. The bank's focus though, is retail lending as reflected in its loan mix of 30% residential real estate, 23% consumer, and 47% commercial purpose loans.

There are no significant impediments hindering the bank's ability to meet the credit needs of the community.

Description of the Assessment Area

NBF defines its assessment area as the City of Fredericksburg and the contiguous counties of Spotsylvania and Stafford. This area encompasses twenty-nine census tracts; nine are moderate income and twelve are middle income. The remaining eight tracts are unpopulated.

Located about 50 miles south of Washington, D.C., the area is included in the Washington Metropolitan Statistical Area (MSA). The assessment area includes the independent city of Fredericksburg as well as a significant rural population, however, its proximity to Washington, D.C. has fueled its growth as a fringe bedroom community to that area. Affordable housing opportunities coupled with commuter rail access have helped to increase population 30% in the last several years, from 138,000 in 1990 to 179,000 in 1996.

Washington, D.C.'s economic influence is strong, and contributes to the assessment area's strong local economy, high median income, and low unemployment levels. Unemployment is low at 2%. The MSA median family income of \$68,300 is much higher than the statewide metropolitan average of \$52,807. And though the local economy is supported by tourism and various service industries, more than 40% of the area's residents commute daily to Washington, D.C. and Richmond, VA for employment opportunities.

Competition among local financial institutions is keen. NBF, chartered in 1865, is one of the more established financial institutions in the area. However, the bank faces significant competition from several other independent local commercial banks, savings and loan institutions, as well as branches of larger, regional banks. The local market has become especially competitive in the last several years, as mortgage companies have proliferated in the area, increasing the competition for residential mortgages.

Discussions with local community officials indicate that area credit needs include residential real estate and housing rehabilitation loans. The National Bank of Fredericksburg is currently meeting these needs through existing bank products, and has introduced flexible credit products specifically designed for low- and moderate-income borrowers.

Conclusions with Respect to Performance Tests

Lending practices, qualified investments and systems for delivering retail banking and community development services help meet the credit needs of the entire assessment area, including low- and moderate-income borrowers, in a satisfactory manner.

Performance under the lending test is rated “**High Satisfactory**”. Lending levels reflect an excellent responsiveness to credit needs within the assessment area, particularly those of low- and moderate-income individuals. Overall lending levels are good and the bank has addressed the community’s identified credit need for residential loans through traditional mortgage as well as secondary market mortgage lending.

A substantial majority of the bank’s loans are within its assessment area. The distribution of these loans also reflects a good penetration to retail borrowers of different income levels and to commercial businesses of different sizes. And, in addition to generating several community development loans, The National Bank of Fredericksburg has initiated two flexible loan products designed specifically to make credit more available to low- and moderate-income borrowers.

Performance under the investment test is rated “**Low Satisfactory**”. Investment levels are considered adequate given the limited opportunities for qualified investments within the assessment area. The bank supports community development largely through grants and donations to various service organizations and other groups that primarily benefit low- and moderate-income individuals.

Performance under the service test is rated “**High Satisfactory**”. The bank makes its products and services available to all segments of the community, including low- and moderate- income individuals. NBF’s network of branches, automated teller machines, and other delivery systems makes its products and services available to all segments of the community. The bank has not closed any offices since the last CRA examination, and in 1995 opened a new branch in a moderate-income census area. NBF supports local community development services by offering special deposit-related products and by supporting the involvement of bank staff in community development activities.

Please see the *Discussion of Performance Tests in the Assessment Area* section of this evaluation for details on the bank’s performance under each of the three tests.

NBF is in compliance with the antidiscrimination laws, including the Equal Credit Opportunity Act and the Fair Housing Act. Home Mortgage Disclosure Act information is maintained in accordance with the regulation and no violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

The Lending Test

Overall lending activities

Overall lending levels are strong. The bank's loan to deposit ratio of 76.23% compares well to the national peer average of 70.65% and its local peer average of 66.87%. This performance represents an improvement since the last CRA exam, as of December 31, 1994, when loans represented 70.28% of all deposits.

Of the \$84MM in loans generated during 1996, about \$11MM or 13% were for the purchase, refinancing or improvement of homes. This level of lending is good considering the high level of competition in the area for residential mortgage-related loans. The following table depicts the level of residential mortgage lending in 1996:

1996 Residential Mortgage Lending

LOAN TYPE	Number	Dollar Volume
Home Purchase	47	\$5,288,000
Refinance	66	\$4,251,000
Home Improvement	55	\$1,439,000
<i>Total</i>	<i>168</i>	<i>\$10,978,000</i>

The bank is active in state and federal housing programs designed to increase the level of home ownership. In 1996, through the Virginia Housing and Development Authority, the Federal Housing Authority, and the Veteran's Administration, the bank provided 22 loans totaling \$2.3MM to first-time and other qualified home buyers.

The bank has met community credit needs by originating a substantial number of consumer loans. A majority, 69%, of the number of loans originated during 1996 were for motor vehicle, home equity, credit card, and other consumer purposes.

During 1996, NBF also originated 126 loans, totaling \$13.7MM, to small businesses with less than \$1 million in annual revenue.

Geographic Distribution

The National Bank of Fredericksburg has a good record of lending within and throughout its assessment area. During 1996, a substantial majority of all loans were originated within Fredericksburg and Spotsylvania and Stafford counties. Bank-supplied data for 1996 shows that 93% of the number and 95% of the dollar volume of all loans were made within the City of Fredericksburg and Stafford and Spotsylvania Counties. As shown below, lending levels within the assessment area for 1996 were strong for all reported loan types.

1996 Lending Levels Within the Assessment Area

	Number	%	Dollar Volume	%
Residential	155	92%	\$9,678,000	86%
Small Business Loans¹	174	98%	\$20,710,000	95%
Consumer	1,057	85%	\$8,322,000	83%

The penetration of loans among different geographies within the assessment area is also good. During 1996, 40% of the number of loans were made in moderate-income areas, while 60% were granted in middle-income areas. This closely approximates the demographic makeup of the area in that 43% of the area's census tracts are considered moderate income and 57% are considered middle income. The dispersion of loans throughout the assessment area is also good. The only area of abnormally low penetration houses the Quantico Marine Base which is sparsely populated and is located at least 20 miles from the nearest branch office.

¹ Small business loans are loans to businesses with an original amount of less than \$1 million.

Borrower Characteristics

NBF has a strong distribution of lending among borrowers of different incomes and businesses of different sizes, particularly low- and moderate-income individuals. An analysis of home mortgage lending for 1996 reveals that 33% of these loans were originated to low- income borrowers and 20% were originated to moderate-income borrowers. This penetration is good given that low- and moderate-income families account for only 21% and 26% of the assessment area.

1996 Home Mortgage Lending by Income Level²

	Number³	%	Dollar Volume	%	% of Families Within Area
Low	56	33%	\$2,395,000	21%	21%
Moderate	34	20%	\$1,717,000	16%	26%
Middle	48	29%	\$3,264,000	30%	29%
Upper	30	18%	\$3,602,000	33%	24%
Total	168	100%	\$10,978,000	100%	100%

The bank's consumer loan lending shows a similar distribution. A random sample of 10% of all consumer loans generated in 1996 shows that approximately 46% of all of the bank's motor vehicle, home equity, credit card, and other consumer purpose loans by number were originated to low-income borrowers. Thirty percent (30%) were originated to moderate-income borrowers. Given the demographics of the area, this represents an excellent penetration among retail borrowers of different income levels.

²Income levels are defined as a percentage of HUD's median family income for the Washington, D.C. MSA, which is \$68,300. Low income is less than 50% of this figure, moderate is at least 50% but less than 80%, middle is from 80% up to 120%, and upper is greater than 120%.

³ Income level distribution is based on loans to all residential borrowers during 1996, within and outside of the bank's assessment area.

1996 Consumer Lending by Income Level

	Number	%	Dollar Volume	%	% of Families Within Area
Low	50	46%	\$175,000	21%	21%
Moderate	33	30%	\$251,000	31%	26%
Middle	18	17%	\$201,000	24%	29%
Upper	8	7%	\$201,000	24%	24%
Total	109	100%	\$828,000	100%	100%

NBF's business lending also reflects a good distribution by loan size. Of the 177 loans depicted below, 126, or 71% were made to businesses with less than \$1 million in revenue. There were no loans made to small farms during 1996.

1996 Small Business Lending by Dollar Amount

LOAN SIZE	Number	Dollar Volume
Less than \$100 thousand	133	\$4,388,000
Between \$100 thousand and \$250 thousand	24	\$4,030,000
Greater than \$250 thousand	20	\$12,657,000
Total	177	\$21,075,000

Community Development Lending

In addition to traditional lending efforts, NBF helped fund several community development loans to the Central Virginia Housing Coalition. Through the Rappahanock Area Banker's Association, the bank contributed \$6,400 toward three loans to purchase and renovate three homes in Fredericksburg to be sold to area low- and moderate-income residents. Because all prospective home buyers must meet income requirements, this program directly benefits low- and moderate-income individuals within the assessment area.

Innovative or Flexible Lending Practices

The bank uses flexible loan products to specifically serve the credit needs of low- and moderate-income individuals. The “*NBF 97*” loan program provides flexible underwriting by offering lower down payments, higher qualifying debt-to-income ratios, and below market interest rates to qualifying borrowers. NBF 97 offers first-time home buyers fixed-rate residential mortgages with a down payment as low as 3% and at an interest rate 1/4% below normal loan rates. This program exceeded bank expectations. In 1996, eight loans totaling \$664M were made to qualifying borrowers.

The bank also offers the “*Low Income Fixed Rate Home Equity*” loan program which offers reduced rates for home equity borrowers considered to have low- and moderate-incomes. In 1996, 14 loans for \$330M were made through this program. Borrowers must meet income guidelines for both these products, and both further demonstrate the bank’s responsiveness to serving the low- and moderate-income borrower.

The Investment Test

The level of NBF’s investment activity is adequate given the limited opportunities for qualified investments within the assessment area. Though there have been no formal investments, the bank is active in other avenues of investing in community development. Since the last exam, NBF donated more than \$18,000 to qualifying service groups. These contributions included grants and donations to organizations that specifically benefit low- and moderate-income individuals and groups by providing affordable housing or otherwise revitalizing low- and moderate- income areas.

For example, the bank donated \$10,000 to build a playground in Bragg Hill, a subsidized housing complex in Fredericksburg. This grant helped revitalize that low-income area through Playgrounds for Area Youth, a local organization formed to build playgrounds in identified low- and moderate-income areas in Fredericksburg. The bank also helped affordable housing to low-income individuals by contributing more than \$2,500 to organizations such as the Rappahanock Refuge, the Thurmas Brisbane Homeless Shelter and the Central Virginia Housing Coalition. Though not innovative or complex, these donations reflect an adequate responsiveness by the bank to the limited opportunities available within the community.

The Service Test

Retail Banking Services and Hours

The National Bank of Fredericksburg provides a good level of service throughout its assessment area. The bank's eight offices and eight automated teller machines are distributed throughout the community and offer a full range of products and services. The bank also offers alternative delivery systems intended to improve accessibility of its services to all segments of the community, including low- and moderate-income individuals. Branch hours of operation are reasonable and do not adversely impact individuals in low- and moderate-income areas.

Alternative delivery systems include the bank's Loan by Phone, Bank by Mail, and Phone Teller programs. Through the Loan by Phone program, individuals within the bank's assessment area can apply for consumer-purpose loans with no application fee. The applicant is notified of a decision within 48 hours. The Bank by Mail program allows customers to send deposits and loan payments by mail to the bank. Through the Phone Teller program, customers dial a local number to verify balances, check account activity, and make loan payments. These programs provide additional flexibility and convenience for low- and moderate-income individuals unable to otherwise travel to branch locations.

Distribution of Branches

The distribution of the bank's branches and automated teller machines is reasonable. Of the bank's eight branch offices, four are located in moderate-income tracts and four are located within middle-income tracts. Automated teller machines are located at six of these offices and a standalone ATM provides services at Mary Washington Hospital in Fredericksburg and at the Massaponax Outlet Mall in Spotsylvania County.

Since the last CRA examination, the bank opened one branch in a moderate-income area. The England Run Office in Stafford County was opened in June of 1995 and provides a full-range of deposit and loan products.

Community Development Services

The National Bank of Fredericksburg offers deposit products geared toward individuals with low- and moderate- incomes. "No Frills Checking" has no minimum balance requirements and imposes no fees for individuals who write no more than eight checks per month. NBF also offers government check cashing at no charge.

The bank also supports community development services by supporting bank officers involved in community development activities. The bank's CRA officer serves on the Board of Directors and provides marketing and financial expertise for the Anne Hamrick School. This local preschool is targeted to children of low- and moderate-income families and is located in a low- to moderate-income area. A bank vice president is the treasurer for Rappahanock Refuge, a local organization that provides transitional housing for low-income families. The bank's senior vice president chairs the Small Business Task Force of the Rappahanock Area Bankers' Association. Through this position, he is involved in arranging financing for area small businesses. The bank is very supportive of all these efforts, providing bank time and resources for these officers to participate in these activities.

Scope of Examination

This Community Reinvestment Act examination assessed The National Bank of Fredericksburg's record of helping to meet the credit needs of its assessment area, including the needs of low- and moderate-income individuals and groups. The bank's assessment area includes the independent City of Fredericksburg and Spotsylvania and Stafford Counties. Performance was reviewed under the lending, investments and services tests, as outlined in the regulation. No activity was reviewed for the bank's affiliate, Mercantile Bankshares.

The lending test included an analysis of the bank's record of lending to individuals and small businesses. Specifically, this review assessed the level and distribution of the bank's home mortgage and small business loans for the calendar year 1996. At the bank's option, the level and distribution of the bank's consumer-purpose lending was also considered. For the purposes of this evaluation, consumer purpose loans include motor vehicle, home equity, credit card, and other secured and unsecured consumer purpose loans.

The investment and service tests included an analysis of the bank's record of providing qualifying investments and services within its assessment area. Qualifying activities undertaken since the most recent Community Reinvestment Act examination, as of November 30, 1994, were taken into consideration.